

# 15.768 Management of Services: Concepts, Design, and Delivery

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**Class Details:** E62-262 Monday, Wednesday 10:00 am – 11:30 am

**Office Hours:** Email Instructor Assistant for available times

## *COURSE DESCRIPTION & OUTLINE*

The course takes an operations point of view to look at companies and industries in the service sector. It builds on conceptual frameworks and draws upon examples from a wide range of service operations: health care, hospitality, transportation, retailing, food service, financial services, among others. The objective of the course is to design and manage operations to create value for customers, employees, and investors simultaneously. Introduction to Operations Management course (15.761) is a pre-requisite or co-requisite for this course.

The course will be primarily case based, with retail settings representing about a third of the material; there is also a course project (see below).

The course will be divided into four modules. In Module 1, we will create a framework to evaluate how well a company creates value for customers, employees, and investors. What does it mean to create a good customer experience? What does it mean to create a good employee experience? What does good operational performance look like? Is it possible to create value to all three stakeholders everywhere? In the next two modules, we will talk about the operating system that can produce excellence to all three stakeholders. In Module 2, we do a deep dive into customers. How do we use customers as co-operators? How do we design and manage our operating system to deal with variability that customers bring to service operations? In Module 3, we will focus on work design and employee management. How do we ensure that we have a motivated and capable workforce? How do we design processes and work to set up our employees for success? The fourth module will be all about change management. If an organization is not designed to create value for all stakeholders, how do we create change? In this module, we will briefly examine the investor's perspective and wrap-up the course.

**INTENDED AUDIENCE:** While the course is for anyone interested in operations and/or the service sector, the focus is on second-year MBA students, particularly those aspiring to careers in (1) operations, (2) service sector, (3) entrepreneurship, (4) strategy, and/or (5) management consulting. A working knowledge of operations, which, for many firms, employs the greatest number of employees and requires the largest investment in assets, is often indispensable for general managers and entrepreneurs.

## GRADING AND EXPECTATIONS

GRADING: The grade you receive for the course is intended to certify your demonstrated proficiency in the course material. Proficiency will be estimated by measuring your performance in:

1. Class participation (Individual): 40%
2. Course project (Group): 30%
3. Pre-class homework questions (Individual): 30%

CLASS PARTICIPATION: For verbal participation, after a threshold, grading will be based purely on the *quality and impact* of your contributions. We will grade your participation after each class based on how your comment moved discussion forward and helped the rest of us learn something valuable. In general, good comments:

- a) Are clear, concise, well-articulated, and relevant to the discussion to which they are addressed, using both qualitative and quantitative evidence to make points;
- b) Reflect careful listening to others' insights and contribute to the flow of discussion;
- c) Aim to tie together concepts across multiple sessions and explore assumptions lying beneath opinions and perceptions.

Your participation grade will also include "nonverbal participation:" on-time arrival, engagement, and enthusiasm! Please note that there is to be no food/eating in class (unless there are medical reasons involved); and all laptops, phones, iPads, etc. are to be turned off and put away during class.

We will track tardiness and absences and incorporate them into class participation grading.

Please also note that we will reinforce the “no food” and “no electronics” strictly. Both are distracting, especially in case learning, and lead to a less productive environment (see: <https://medium.com/@cshirky/why-i-just-asked-my-students-to-put-their-laptops-away-7f5f7c50f368>).

COURSE PROJECT: Throughout the course, we will learn about how to design and manage a service organization to create value for customers, employees, and investors (CEI). The team-based project (groups of 3-4 people) allows you to apply classroom learning to investigate how to improve performance at a specific company.

1. At the end of the first module, create a scorecard for evaluating company performance along the CEI dimensions. When you look at any service organization, how will you evaluate whether it is successful in creating value to CEI?
2. Pick a company that you think is mediocre in terms of driving value for CEI and give them a score on the scorecard you created in step 1. You might want to combine your observations and interviews with company employees and customers with other data sources such as: Yelp and ASCI for customers, Glassdoor and Indeed for employees, and annual reports and analyst coverings for operational and financial performance.
3. Using the learnings in modules 2 and 3, assess the sources of mediocrity and diagnose what the company does well and what it does not do well. What needs to change? Guiding questions include: Is there a focus on creating value for the customer? Is the company managing customers and customer variability well? Does the service offering drive value for

customers, employees, investors? Is the company designing work and process to create excellence? Is the company making the right choices to create a capable and motivated workforce? Does the company ensure that its employees are productive and can contribute to company success? Are the unit managers spending most of their time developing people and taking care of customers or are they mainly fighting fires? Is there a strong continuous improvement system that involves frontline employees?

4. Provide recommendations for improvement. Based on your assessment above, what do you recommend? What are the things that the company should change? Why? How would you prioritize the changes? Why? How would you implement those changes? How will you measure success? Given the list of changes, what is your recommendation for who should drive the change process?

Your final project paper should be no longer than 20 pages. Each section will be due at stages throughout the semester.

- 1- Scorecard: February 23<sup>rd</sup>
- 2- Scoring the company: March 16<sup>th</sup>
- 3- Diagnostic: April 27<sup>th</sup>
- 4- Implementation and full paper: May 16<sup>th</sup>

**HONOR CODE FOR FINAL PROJECT.** *Please cite all significant external sources used for your report.* This applies in particular to papers you may have written for other classes, to documents you may have received from the company you are analyzing, interviews with industry experts, etc. Building on external sources is by no means a “bad thing”—solid work is typically aware of and builds on what others have done. Ideally though, you should take this external information and add the filter of your own critical thinking and the concepts studied in this class to synthesize/critique it.

**PRE-CLASS HOMEWORK QUESTIONS:** For every class, there will be assignment questions that will help you prepare for the class discussion. In addition, we will ask you to answer a subset of those questions and submit your written responses before 7am of the day of class. Your pre-class homework grade will be based on both the quantity of responses (did you prepare for each class?) and quality of responses. The quality will be determined by grading 10 of the responses.

**HONOR CODE FOR PRE-CLASS HOMEWORK QUESTIONS:** The questions must be answered individually. Please do not discuss with others and please do not seek outside (i.e., Internet) sources related to the details or analysis of the case.

### **WORKLOAD FORECAST**

My expectation is that you will spend approximately nine hours per week in total for this course. Your weekly schedule should plan for roughly

- 3 hours in class;
- 4 hours doing individual reading and case preparation *before* class;
- 2 hours for group discussions to prepare the weekly case assignments and/or the ongoing final project.

## **TEXT AND COURSE MATERIALS**

There is no text for the course. Required materials are (1) 15.768 Course-pack (cases) from Study.net; and (2) additional readings on Stellar.

## **DETAILED CLASS SESSION ASSIGNMENTS**

In addition to the cases below, we will have five sessions where we will have guests.

- Starbucks: Katie Bach, Director of Strategy
- QuikTrip: Chet Cadieux, CEO
- Quest Diagnostic: Scott Jeffers, Mary Ann Camacho, Michelle Ricardo, and Jim Davis,
- Managed by Q: Dan Teran (CEO), Chris Davis (CFO)
- Costco: Jim Sinegal, Co-founder

# MODULE 1: Introduction to Service Operations and CEI Framework

## 2/7: Benihana of Tokyo

### Questions:

1. Is the Benihana concept successful in creating value for customers, employees, and investors? How successful?
2. How profitable are the restaurants and why are they so profitable? (you may want to look at the data in the case for the Chicago store)
3. Examine Benihana's process design. What design choices are critical for the company's success?
4. How do you reconcile low labor costs with low chef turnover?

## 2/12: Borders Group

### Questions:

1. Can Borders integrate the capabilities of the Internet and the retail store? What is the role of phantom stockouts in achieving this integration?
2. How significant of a problem is phantom stockouts for Borders? What is its effect on customer service, merchandise planning systems, and store operations?
3. What is the root cause of the phantom stockouts problem? How would you fix this problem?

## 2/14: Orient-Express Hotels;

### **Four Seasons Goes to Paris: "53 Properties, 24 Countries, 1 Philosophy"**

### **Reading: The Age of customer capitalism (Four Seasons)**

### Questions:

1. Examine the customer experience at both companies. What are the most important drivers of that experience?
2. Examine design and management of the two companies' operating systems in terms of their service offering, facility strategy, work design, and management of people. What are the strengths and weaknesses of each? What most surprised you about the differences in choices the companies have made?
3. Which model delivers more value for employees, customers, and investors? Where would you want to be a customer, an employee, an investor?
4. Should the Orient-Express Hotels (OEH) institute a loyalty program for its hotel properties? If so, which existing loyalty programs should it most closely resemble?

Note: In class, we are not going to spend time discussing Four Seasons' expansion into Paris. So, feel free to skim pages 4-14 of the case, with the exception of the section "Running the F.S. George V" that starts on page 11. That section will be useful for our class discussion because it has general information about the company's HR practices.

**2/20: The Home Depot, Inc.**

**Reading: Customer Satisfaction and Stock Prices: High Returns, Low Risk**

Questions:

1. What is your assessment of Nardelli's changes at Home Depot? Which of these had the greatest impact?
2. How do Nardelli's changes affect profitability, labor productivity, customer service, and the stock price? What metrics would you use to assess the impact of the changes?

**2/21: Jieliang Phone Home! (A); Jieliang Phone Home! (B)**

**Reading: "One More Time: How Do You Motivate Employees?" Frederick Herzberg**

**2/26: Trouble at Tessei**

## **MODULE 2: Managing Customers & Customer Variability**

**2/28: IBM Retail Business Assessment at Dillard's**

**Reading: Match Supply and Demand in Service Industries, HBR Earl Sasser**

Questions:

1. What strategies are available to manage variability in customer arrivals?
2. What's your recommendation for capacity strategy and staffing at IBM Dillard's?

**3/5: Starbucks**

**Readings: "Putting the Service Profit-Chain to Work"**

**Guest: Katie Bach, Director of Strategy, Starbucks**

Questions:

1. Why have Starbucks's customer satisfaction scores declined?
2. What's the impact of higher product variety on employees, customers, and investors?
3. What is the relationship between customer satisfaction and loyalty?
4. Describe the ideal Starbucks customer from a profitability standpoint. How valuable is he/she to Starbucks? What would it take to keep such customers highly satisfied?
5. Should Starbucks make the \$40 million investment in labor in the stores? Why/Why not?

### **3/7: Shouldice Hospital; Innovation at Progressive (A): Pay as You Go**

**Readings: “The Process Enterprise: An Executive Perspective,” Michael Hammer  
“Who has the next big idea?” Daniel Pink, Fast Company, 2001.**

#### Questions:

1. How well does Immediate Response work for customers, employees, and investors?
2. Why was Lewis able to implement Immediate Response despite all the internal resistance?
3. What general process design lessons can we learn by looking at Immediate response (The two optional readings will be helpful to answer this question)
4. How does Progressive use the Comparison Quote feature for its advantage?
5. Would providing a comparison quote work as well for other insurance companies?

#### Questions:

1. Is Shouldice successful in creating value for customers, employees, and investors? How successful?
2. Reflect on “process design” lessons from the Progressive case and readings. Do they apply to Shouldice?
3. Why does this hospital run so smoothly? What are its key processes?

## **MODULE 3: Employee Management, Work Design, and Improvement**

### **3/12: Rapid Rewards at Southwest Airlines**

#### Questions:

1. What are the key elements of Southwest’s service concept?
2. What operating decisions allow Southwest to deliver on its value proposition?
3. Evaluate Southwest’s employee selection process.
4. Southwest is highly unionized yet unions don’t seem to interfere with job design or improvement. Why is that?
5. Southwest has a faster turnaround time than other airlines. How great a financial impact does this have on Southwest? Specifically, estimate the portion of airline’s profit that you would attribute to this fast turnaround.
6. Southwest recently moved to give boarding priority to business and frequent travelers. Do you agree with Southwest’s change in policy since the time of the case? What is the key motivation for your opinion?
7. Should Southwest allow its most frequent fliers that have missed their flight to take the next available flight with an empty seat or should these customers have to wait for the next available flight with an empty seat *within the same fare class*? What drives your decision?

### **3/14: Bugs Burger**

#### Questions:

1. Evaluate BBBK's business model. Where would you put BBBK in the framework we talked about in class when we discussed OEH and Four Seasons (perceived customization of customer experience on the y-axis and customization of processes on the x-axis)? Is this model scalable?
2. What are the costs and benefits of providing a service guarantee for BBBK?
3. Why aren't unconditional guarantees more prevalent in services?

### **4/2: Oberoi Hotels: Train Whistle in the Tiger Reserve**

### **4/4: Affinity Plus (A)**

#### Questions:

There is a significant amount of financial information in the case that allows you to estimate the income statement and balance sheet effects of exiting the indirect lending business. Please do not focus on such an analysis for purposes of this class. Instead, we will devote our time in class to understanding the company's service model and unique employee management system. Without going through a detailed financial statement analysis, you can assume that, at the time of the case, the indirect auto lending business was a strong contributor to new customer growth, new loan growth, and to overall profitability. With this in mind, please read the case and consider the following questions:

1. What is your reaction to Kyle Markland pronouncement about turning off the controls in November 2002?
2. Evaluate Affinity's "MOE" framework. In your view, is MOE likely to be effective in creating value for Affinity Plus? If so, what are the specific ways in which you expect MOE to lead to value creation in the organization? If not, what are the specific ways in which you expect MOE to lead to poor organizational performance?
3. What are some control mechanisms that encourage employees to make the right decision for customers and Affinity plus?
4. What would you recommend to Kyle Markland regarding the indirect auto lending business at Affinity?

### **4/9: Nordstrom: Dissention in the Ranks?**

#### Questions:

1. Why might performance-based incentives work better at Nordstrom than at Affinity Plus?
2. Evaluate sales per hour as a metric. Is it an effective performance measure?
3. What is the cause of the problems described in the case? How serious are these problems?

4. How effective is the memo reproduced as Exhibit 3 in clarifying the distinction between "sell" and "non-sell" time?
5. With whom do you side: disgruntled employees or Nordstrom management?
6. How would you change management systems at Nordstrom?

**4/11: Mercadona**

Questions:

1. How is Mercadona able to provide the lowest price to customers and at the same time invest heavily in its store employees? What are some of the strategy, supply chain, and operations choices they made that allows for this to happen?
2. What is your recommendation for employee bonuses for 2008?
3. What is your assessment of Mercadona's ordering of the five components? Do they have the right order?

**4/18: QuikTrip**

**Optional Video: RSA Animate - Drive: The surprising truth about what motivates us**  
<https://www.youtube.com/watch?v=u6XAPnuFjJc>

**Guest: Chet Cadieux**

Questions:

1. Should Chet Cadieux break with successful precedent and accelerate his entry into North Carolina? Is it possible to get a quicker payback on market entry than has been the case in past entries (e.g. Dallas)? What are the potential costs and benefits of this acceleration?
2. How successful is QuikTrip in delivering value to its customers, employees, and investors? What are the most important elements of QuikTrip's success?
3. How did QuikTrip implement standardization without hurting employee dignity? How does QuikTrip empower employees without losing control? What mechanisms does QuikTrip use to ensure that employees create value for customers and investors?
4. What are the costs and benefits of having relief employees?
5. How does QuikTrip ensure that its employees are motivated to put in their best effort?

## **MODULE 4: Change Management & Wrap-up**

**4/23: The Container Store**

**4/25: TD Canada Trust (Abridged)**

**Reading: Why Transformation Efforts Fail**

Questions:

1. Why has Chris Armstrong initiated the linkage analysis? What problems is he trying to address with this analysis? Is the linkage analysis an effective way to address these problems?
2. What is your assessment of the credibility of the linkage analysis and its results? What features of the analysis enhance or detract from its credibility?
3. Evaluate the Branch Incentive Plan proposed by Armstrong and his team. What changes, if any, would you recommend to this incentive plan? How, if at all, are your recommendations informed by the results of the linkage analysis?

#### **4/30: Cincinnati Children's Hospital**

**Reading: "The Discipline of Business Experimentation" Stefan Thomke and Jim Manzi HBR 2014, "Fixing Health care from the Inside, Today" Steven Spear**

#### **5/2: Quest Diagnostics**

**Guests: Scott Jeffers, Mary Ann Camacho, Michelle Ricardo, and Jim Davis**

#### **5/7: David Berman**

**Reading: Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices. Alex Edmans Journal of Financial Economics**

##### Questions:

1. What is David Berman's business model? What are its strengths and weaknesses?
2. What is the relationship between retailers' inventory and their firm valuation?
3. Examine the impact of a \$20 Million inventory write-off in the spreadsheet "David Berman Simplified Model.xls" on John B. River's market capitalization (You can change the amount of inventory write-off in the worksheet "Key Assumptions"). Similarly, examine the impact of a \$30 Million write-off on John B. River's market capitalization.
4. How much inventory should Berman expect to write off at John B. River? What data or analysis could he use to refine his estimate?
5. In general: what could account for discrepancy between the intrinsic and market value of a firm (the optional readings would be useful to answer this question)?

Note: In preparing for the David Berman case, I do not recommend that you spend time on obtaining a precise valuation of John B. River. We will focus class discussion on the effects of inventory and inventory write-offs.

#### **5/9: Managed by Q**

**Guests: Dan Teran and Chris Davis**

**5/14: Jim Sinegal, Costco – Strategic Benefits of Operational Excellence**

**Guest: Jim Sinegal**

**5/16: Fall Before the Rising: The Story of Jai Jaikumar**

Questions:

1. Why did the shepherd woman help Jai the way she did?
2. What should Jai learn from this experience?